

Interview with Rolf Strauch, ESM Management board Member

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Die Presse: Alexis Tsipras has been sworn in again as Prime Minister after the recent elections in Greece. Do you fear that the aid package has to be renegotiated?

Rolf Strauch: No, the agreements continue to be valid. Also, reform-minded forces now dominate the new Greek parliament. Those within the Syriza party who voted against the package of up to €86 billion were not successful in the elections.

What are the preconditions of further payments?

On principle the ESM only disburses tranches of its loan if Greece complies with the reform conditions. It is a particularity of this programme that Greece had already implemented some reforms before the programme negotiations had even started. But the government in Athens will have to implement further reforms during the three-year programme period. In October, the first review takes place. By then Greece should have implemented the reform of the pension system, for example. There needs to be a sustainable and common system, privileges that are out of keeping with the time must be abolished. The administration and the work conditions for companies also have to be modernised.

In Austria, Heta's debt is getting ever bigger. Will Austria also require help from the ESM at some point in time?

I cannot imagine that. Austria is among the pillars of our system. Austria is one of the guarantors of the EFSF, the ESM's predecessor. It is also one of the shareholders of the ESM with a very good rating. Altogether the euro member countries have paid €80 billion into the ESM, more than €2.2 billion are from Austria. Only in a very theoretical and extreme case with very big credit losses and only if other Member States do not comply with their obligations would all the subscribed capital of individual Member States have to be used. For Austria this would mean €19.5 billion which corresponds to 2.76% of the entire capital. And this money would only be needed for several decades.

How much money has the ESM already disbursed?

The ESM has a maximum lending capacity of €500 billion. For the programmes in Cyprus and Spain, the ESM has granted loans of €45 billion. On top of this, there is now the package for Greece with a volume of up to €86 billion. Greece has received a first disbursement of €13 billion. Further loan disbursements are foreseen in stages provided Greece complies with the reform conditionality. We think that the ESM will end up disbursing less than €86 billion, because it is likely that the IMF will participate in the programme.

Does the ESM use its paid-in capital to finance its loans?

No, the paid-in capital is used exclusively as collateral whenever we issue bonds on the financial market. Thanks to the €80 billion of paid-in capital the ESM has very high credit quality. The paid-in

capital is never lent on. We invest this money in a conservative manner on the capital markets, the largest part into European government bonds, most of them from the euro area.

And who buys ESM bonds?

More than half of our investors come from the euro area, 20% from Asia. The remaining 30% come from England and Switzerland. You have to take into account that many international banks – for example those from the US – are represented in England and they also buy. Concerning the groups of investors, around 40% are banks, more than 30% are central banks and the rest are fund managers.

The ESM itself holds 40% of the Greek government bonds. Is that not risky?

I don't see any reason that it should be at the moment. Greece has made a lot of progress, it has shown fiscal discipline and it has implemented reforms. Our loans are making a significant contribution to the economic policy recovery process of the country. This is because the ESM is passing its advantageous lending conditions on to the country, so Greece is paying a very low interest rate on our loan. This gives the country a margin to manoeuvre without incurring any cost to the European taxpayer.

Does it really lead to budgetary discipline if countries can refinance themselves via the ESM at much better conditions?

Yes. The reason is that the ESM only disburses its loans to a programme country if the country implements the reform conditions and part of that is budgetary discipline. It is one of the central lessons of the Greek crisis and the other programmes that no government applies light-heartedly for a rescue loan. The political cost for any government is very high.

Will you perhaps have to grant another debt cut despite everything?

There will be no nominal debt cut. In principle, other solutions can be considered in order to keep the country's financing needs low and to contribute to debt sustainability. Part of this is an extension of the loan maturities as was done for the EFSF loan for Greece. The maturity was extended to 32 years in 2012 to guarantee the sustainability of the debt. If necessary one could also consider a temporary interest rate deferral. In that case we could not ask for any interest payments for the first 10 years, for example.

Why does the IMF hesitate to participate in the current programme for Greece?

The IMF wants to wait for the first review in October to gain clarity on the extent to which the agreed reforms have been implemented. There can also be talks this autumn on what needs to be done after the successful conclusion of the first review in order to guarantee debt sustainability in Greece in the long run. But I am confident that the IMF will participate in the programme for Greece.

Why does Greece still need help?

The need for reform was much greater in Greece than in other countries at the start of the crisis. There were structural deficits, corruption and restrictions to market access. That is why the reform process takes longer. But one also needs to stress that a lot has already happened in Greece. According to the OECD Greece was a leader among industrialised countries in implementing reforms. In 2014, the country even had a small primary surplus. Because of political uncertainty there was standstill and even regression from the second half of 2014 until the middle of this year. This is also

illustrated by the current recession. But it is important that the country does not have to start all over from zero now. Instead, it can build on past reforms.

If there is an exit of Greece from the euro area, would you accept to be repaid in Drachma?

For us, Greece's exit is not a scenario. We are working hard so that Greece can finish its programme successfully in 2018 and return to the capital markets to raise money. Should there be an exit despite our efforts then the situation is clear: our loan agreement with Greece foresees repayment in euros.